



INSIDE CHINA

THIRD PARTY PLENUM, NOVEMBER 2013



Jayadeva Ranade

Distinguished Fellow, IPCS & Member, NSAB

The 4-day (Nov 9-12, 2013) Third Plenary session of the 18th Central Committee (CC) of the Chinese Communist Party (CCP) concluded in Beijing on November 12, 2013. It was attended by 204 Full Members and 169 Alternate Members of the 18th CC, which comprises 205 Full Members and 171 Alternate Members. Standing Committee members of the Central Discipline Inspection Commission (CDIC), leading officials from relevant departments, some grassroots-level delegates to the 18th CCP National Congress as well as experts and scholars were present at the plenary session as non-voting delegates.

The days leading up to the 18th CC's Third Plenum witnessed stark reminders of the spreading domestic discontent and unceasing

restiveness among Tibetan and Uyghur minorities in the Tibet Autonomous Region (TAR) and Xinjiang Uyghur Autonomous Region (XUAR). The discontent has ensured that domestic security issues dominate the agenda of the CCP leadership headed by Xi Jinping and boosted the domestic security budget to over US\$ 110 billion, or more than the national defence budget. Most alarming was the incident on October 28, described by Chinese security authorities as a "terror attack" by armed Uyghur "terrorists" from Xinjiang who by-passed the heightened security measures and drove an SUV into the gate of the Forbidden City in the heart of Beijing. On November 6, small bombs were detonated outside the CCP headquarters in Taiyuan, capital of Shanxi province. The CCP CC's plenary meeting was also not held in the Great Hall of the People but in a PLA-owned hotel in Beijing.

The Plenum, while further strengthening Xi Jinping's position, effectively sent out three clear messages. First, that Xi Jinping is China's paramount leader and he personally steered the slew of economic reforms approved at this Plenum. Second, that the CCP, conscious of its

The author is Member of the National Security Advisory Board (NSAB) and former Additional Secretary in the Cabinet Secretariat, Government of India. He is a Distinguished Fellow at the Institute of Peace and Conflict Studies (IPCS) and presently President of the Centre for China.

China Research Programme (CRP)



sagging popularity and widespread popular dissatisfaction, is agreed on the need to promote comprehensive economic reforms to create jobs, further improve entrepreneurial opportunities for the people and boost the national economy to ensure that the country realizes the 'Chinese Dream' and ranks among the world's most advanced countries by 2020. Third, the Plenum recognized the need to strengthen security coordination with the initial focus on domestic security and accelerate military reform and modernisation.

In Beijing, there was an unmistakable air of public optimism that surrounded this Plenum. In addition to China's official media a number of Chinese observers, economists and analysts described it as a crucial Party meeting next in importance only to Deng Xiaoping's 11th CC Plenum in December 1978, which approved the 'open-door and reform' policy. Sentiment was prevalent that steps to commence implementation of the wide ranging reforms that had been announced would begin early. This was reinforced soon enough with the disclosure that it had been decided to set up a 'Leading Small Group for the Comprehensive Deepening of Reform', to oversee implementation of the reforms. Other steps followed. The popular perception of Xi Jinping as a 'person of the masses' and decisive leader who gets things done contributed to this air of optimism.

Xi Jinping's leadership role and direct involvement in drafting the reforms was clarified in official reports detailing the time-line for preparation of the draft which was finally approved at the Third Plenum on November 12, 2013. This was underscored by the release on

November 15 -- within three days of the conclusion of the Plenum -- of the self-explanatory "Xi Jinping's Explanation of the CPC Central Committee Decision on Several Major Issues on the Comprehensive Deepening of Reforms" and the lengthy "CCP Central Committee Decision concerning Some Major Issues in Comprehensively Deepening Reform".

Official reports that gave the time-line of drafting of the reform proposals stated that the Politburo (PB) set up a 60-member drafting group headed by Xi Jinping in April 2013. Before its first meeting on April 24, the drafting group had sought the opinions of all Party and government organisations down to the level of Autonomous Regions and received 118 proposals. At the meeting on April 24, Xi Jinping asked members to "make a strategic plan for deepening reforms across the board" and produce a "landmark document that will meet public expectations". The first draft was submitted to the 7-member Politburo Standing Committee (PBSC) on July 25 which, after a number of amendments, was circulated to more than 100 departments across the country. By Sept 4 the group had received 2,564 proposals of which over 40 per cent were included in the final document. After discussing the draft with the non-communist parties, the PB decided to submit it to the CCP 18th CC's Third Plenary session where it was accepted after a vote on Nov 12. The document containing over 300 reform measures was released to the public on Nov 15, 2013.

The 'Explanation' of the proposal is usually offered to the CC plenum by the PB or PBSC member in charge of the subject, which in this case should have been expected to be Premier Li Keqiang. It was Xi Jinping, however, who presented his 11,000-character 'Explanation' to the 18th CC plenary session. Xi Jinping disclosed that he had chaired the group preparing the draft of the Decision along with PBSC Members Liu Yunshan and Zhang Gaoli as the Deputies. Significantly, Premier Li Keqiang was not included.

The 3,490-word Plenum Communique further confirmed Xi Jinping's imprimatur on the Third Plenum and his standing in the CCP leadership by declaring that "comrades in the entire Party,

In Beijing, there was an unmistakable air of public optimism that surrounded this Plenum. In addition to China's official media a number of Chinese observers, economists and analysts described it as a crucial Party meeting next in importance only to Deng Xiaoping's 11th CC Plenum in December 1978, which approved the 'open-door and reform' policy.

(who) must closely revolve around the Party Centre with Comrade Xi Jinping as General Secretary to forge ahead” and “realize the Chinese Dream of the great rejuvenation of the Chinese nation!” The Communique, of course, paid the mandatory obeisance to China’s pantheon of ‘veteran revolutionary’ leaders and urged that “we must hold high the magnificent banner of Socialism with Chinese characteristics, take Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the important “Three Represents” thought and the Scientific Development view” as the guide.

The Communique identified four major areas where the Third Plenum had approved decisions. Important was the discussion on the ‘mixed economy’, where it stated: “The core issue is to straighten out the relationship between the government and market, allowing the market to play a decisive role in allocating resources and improving the government’s role”. This is the first time that the role of the market was described as “decisive”. Earlier it used to be described as “basic”. Chinese analysts interpret this as a clear indication that the authorities will let the free market play a bigger role in the economy.

The role of public and non-public sectors in the economy was also discussed with both described as “important components”. This was accompanied by a strong endorsement of the role of the private sector. In the context of the urban-rural divide there was a suggestion that the ‘hukou’, or household registration, system would be reformed. The Communique made special mention of “further widening investment access, accelerating the building of free trade zones and expanding the opening up of inland and border regions”.

As anticipated there was little, or no, discussion concerning political reforms. On the contrary the 21,548-character, 60-section “CCP Central Committee Decision concerning Some Major Issues in Comprehensively Deepening Reform” approved by the Plenum on November 12, and released on November 15, specifically declared that “The most important matter is persisting in the leadership of the Party”. It emphasised the need to “strengthen and improve the Party’s leadership over comprehensive deepening of

The role of public and non-public sectors in the economy was also discussed with both described as “important components”. This was accompanied by a strong endorsement of the role of the private sector

reform”. It dealt at length with the Party’s leadership role and its importance. The Xinhua report on the Plenum communique was more categorical and asserted that the CCP’s leadership role must be adhered to. Both documents asserted the Party’s premier role and referred to it over 25 times.

The Decision also stressed the role of ideology and propaganda and dwelt at length on the role of propaganda and culture in building ‘Socialist core values’. It made it evident that the Party’s role in media, cinema etc. would be strengthened and become more pervasive. It similarly emphasised the need for the Party to promote ‘socialist core values’ and ‘love for the motherland’ among students. In its mention of the role of media and cinema, it was implicit that stringent controls would continue.

The lengthy 21,548-character, 60-section “CCP Central Committee Decision concerning Some Major Issues in Comprehensively Deepening Reform”, approved over 300 reform proposals. Most are ambiguously worded but some are specific, indicating that they would be taken up earlier. Some of the more important proposals that were approved are briefly highlighted below.

The CC Plenum tackled the issue of reform of the monopolistic, extremely wealthy and powerful State owned Enterprises (SoEs), which have been the subject of public discussion for years. Confirming that they have a dominant role in the socialist economy, the Third Plenum announced some concrete decisions that directly affect the SoEs. These include that they will now pay a percentage of their profits to the

State and this percentage will rise to 30 per cent by 2020. This dividend to the State will be used for public welfare like health insurance and social security. Three other equally crucial reform measures are that: (i) SoEs will begin to “reasonably” increase the proportion of persons hired directly from the open market; (ii) SoEs will “strictly standardise” the salaries, duty remuneration, duty expenses and professional expenses of SoE management personnel. The authority to determine the “reasonable” amount appears to have been left to the SoEs; and (iii) other enterprises including private, are permitted to acquire shares in SoEs. While an attempt has been made towards reform of the SoEs, the measures approved by the Third Plenum are really small, tentative steps that do not dilute their grip over national resources or dominant position in the national economy.

The Plenum mandated a definite move towards prices being determined by markets and specifically authorised reform in the competitive pricing of water, oil, natural gas, electricity, traffic, telecommunications etc. It also urged formulation of a marketised withdrawal system where the fittest survive and enterprise bankruptcy systems are perfected.

On financial market systems, it has encouraged domestic and international entities by permitting “non-government capital” to sponsor the establishment of small and mid-size banks. It said procedures for foreign investments should be streamlined by implementing a “management model for foreign investment with pre-entry national treatment and the negative list”. It said the qualification accreditation programme should be reduced and changed “from certification before

licensing to licensing before certification”. Recent anecdotal evidence from Beijing-based foreign businessmen suggests that action to reduce the number of bureaucratic procedures especially in the financial sector have already begun to be implemented.

Renminbi (RMB) exchange was specifically referred to in the Decision, with a call for acceleration of interest rate marketization and towards realization of convertibility of RMB capital accounts. Action towards implementation was quick with Zhou Xiaochuan, the progressive Governor of the People’s Bank of China (PBoC), quoted by China Daily (Nov 20) as saying within days after the Third Plenum that ‘China is poised to take yet another step in making the yuan a free floating currency’. Separately, PBoC Deputy Governor Yi Gang said that a ceiling on deposit rates offered by the bank would be phased out.

The reform measures said that government control over micro-level matters should be reduced and examination and approvals must be cancelled without exception for all economic activities that market mechanisms can effectively regulate. It asked governments to transfer what can be handled by localities to them. A separate reform measure approved the reduction in the number of government departments and called for some separation of the Party from the government.

Tax revenue systems are to be improved and the proportion of direct taxation will be progressively increased. VAT will be enhanced along with tax on high-energy consumption and high pollution products. An individual Income Tax system is to be established and the legislation of bills to tax real estate and levy a tax for environmental protection is to be accelerated.

Describing the recently inaugurated China Shanghai Free Trade Trial Zone, reportedly promoted by Premier Li Keqiang, as a “major measure”, the Decision approved by the Plenum urged more openness with the Hong Kong Special Administrative Region (SAR), Macau SAR and Taiwan. Governments were asked to “broaden inland border openness” and develop transportation links to forge “foreign economic

The Plenum mandated a definite move towards prices being determined by markets and specifically authorised reform in the competitive pricing of water, oil, natural gas, electricity, traffic, telecommunications etc

corridors” as well as develop the “Silk Road economic belt” and the “Sea Silk Road”.

The Plenum directed that the system of protecting property rights must be perfected, adding that “property rights are the core of ownership systems”. It instructed that “property rights in the public economy may not be violated, property rights in the non-public economy may equally not be violated”. It asserted that the State protects economic property rights and legal interests in all sorts of ownership systems.

Reform measures approved by the Plenum stressed innovation at all levels including industry and schools. It urged development of IPR and technology markets and raising the proportion of young and middle aged talents in the science and technology sector.

Alleviation of the condition of peasants and gini coefficient remained a priority with the Plenum substantially enlarging the property rights of peasants and demanding that they be endowed with more property rights. Their membership rights in collective economic organisations are now to be guaranteed along with their rights over homestead land. It demanded forward movement on peasant housing property right mortgage, guarantee and transfer and added that “property-type income channels for peasants” should be expanded.

In addition, the sale, rent or lease of land by the rural collective, including for construction, has now been permitted on the same terms and prices as for State-owned land. The Plenum’s Decision directed that land expropriation be reduced and measures for its expropriation be standardized with guarantees for affected peasants. Mechanisms are to be created to ensure the reasonable allocation of profits from increased land values to the State, collective and individual, while increasing the profit to the individual.

The existing structure of town and country was described as a “main obstacle” restraining urban and rural development. The Plenum approved reforms that allow “peasants to equally participate in the process of

The existing structure of town and country was described as a “main obstacle” restraining urban and rural development. The Plenum approved reforms that allow “peasants to equally participate in the process of modernization and jointly share the fruits of modernization”.

modernization and jointly share the fruits of modernization”. More categorical was the instruction to “change people transferred away from agriculture into townspeople, progressively change people transferred away from agriculture who meet conditions into urban residents. Innovate population management, accelerate household registration system reform, completely lift restrictions on settling in administrative townships and small cities, lift restrictions on settling in mid-size cities in an orderly manner, rationally determine conditions for large cities, strictly control the scale of the population in especially large cities”.

The last mentioned reform relaxes, but does not abolish, the hukou, or household registration system with cadres largely continuing to retain their powers. It does, however, facilitate the migration of rural workers to urban areas. Together with the other reform measures it boosts the revenue earnings of rural residents by allowing monetisation of their holdings and ameliorates the living conditions of rural migrant workers by granting them housing and social security benefits as admissible to urban residents. The move is estimated to add up to 40 million rural migrant workers to the labour force.

The Third Plenum relaxed the stringent family planning norms introduced by Deng Xiaoping in the late 1970s and permitted families in which either of the parents is a single child to have a second child. The relaxation is intended to reverse the effects of the low fertility rate – which has dropped to 1.6 since 1992 – and maintain China’s young labour resources. There

was a drop in China's working age population for the first time in 2012 when the number of people aged between 15 years and 59 years fell by 3.45 million. Aging has been another consideration. China's National Committee on Aging has estimated that people aged above 60 years will number over 200 million by the end of 2013 and over 400 million by 2033. The impact of the relaxation will, however, be minimal as the fast development of the economy and high cost of living has seriously discouraged younger people in China from having children.

The Plenum approved the measure to abolish the 'laojiao', or reform-through-labour, system in vogue in China since 1957. The decision followed through on Premier Li Keqiang's announcement at the National People's Congress (NPC) session earlier this March that work was underway on a plan to abolish the 'laojiao' system by the end of the year. The system will officially end once it is approved by the next NPC, China's version of a Parliament, in March 2014.

There was a modicum of judicial reform, but no substantive steps. Barely a month before the Third Plenum the official website of the Supreme People's Court posted a paper demanding an end to corruption in courts and asking officials to stop interfering in the courts decisions. The paper asked that courts be allowed to independently exercise judicial authority based on constitutional principles and that all forms of local and departmental

There was a modicum of judicial reform, but no substantive steps. Barely a month before the Third Plenum the official website of the Supreme People's Court posted a paper demanding an end to corruption in courts and asking officials to stop interfering in the courts decisions.

protectionism should cease.

The drive against corruption and 'people's' supervision over government were addressed. The anti-corruption body namely, the Central Discipline Inspection Commission (CDIC) gained more powers with the Plenum approving that the CDIC and the Party's Organisation Department would have the authority to appoint the Secretaries and Deputy Secretaries of subordinate Discipline Inspection Committees (DIC) in provinces, Autonomous Regions etc. so as to dilute the influence of local government authorities over the DICs. DICs will also henceforth supervise the functioning of DICs subordinate to them concurrently with the concerned government body. The subordinate DICs have been mandated to report clues and investigations to the higher level DIC. China's official news agency 'Xinhua' disclosed that the Third Plenum had also expanded a two-year trial programme to now cover the entire PLA and authorized the CDIC to oversee top military officers to ensure they are doing their jobs properly and are incorruptible.

Similarly, the supervisory role of the National People's Congress (NPC) has been strengthened with people's governments being instructed to report to the People's Congresses at the same level before publishing major policy decisions.

Reforms touching mainly on the domestic security apparatus have definitively enhanced Xi Jinping's authority. They have additionally increased his direct control over the security apparatus. The section dealing with domestic issues and innovation of the social management system included the decision to establish a State Security Committee, also called the National Security Committee (NSC), which will be headed by Xi Jinping. It is assessed as likely to have the same status as the Central Military Commission and the two 'Leading Groups' on National Security and Foreign Affairs. It will include representatives from the PLA, PAPF, MPS, MoSS, Ministry of Commerce, MFA, the CCP CC's and the CCP CC's Propaganda Department and

the CCP CC's International Liaison Department (ILD). The Plenum also approved, as part of these reforms, the enhancing of the strength of public security forces especially for internet security and safeguarding secrets on the internet.

Xi Jinping explained that the NSC is necessary to strengthen the “unified leadership of State security work”. This committee will combine planning and coordination components. Referring to formation of the security committee, Chen Xiangyang, Deputy Director of the China Institute of Contemporary International Relations (CICIR) a think-tank of the Ministry of State Security, wrote in the official English-language ‘China Daily’ that “the country is witnessing frequent social disputes. Meanwhile, hostile forces at home and abroad, including separatism, extremism and terrorism, are looking for opportunities to undermine social stability”. “China”, he said “is faced with a more severe security situation”. The head of China’s official foreign policy think-tank said that the new NSC will focus on the ‘Three Evils’ (terrorism, separatism, and religious extremism) in addition to coordinating international strategy, particularly on maritime issues. A Japanese newspaper reported in end November that a 60-member secretariat had been established and the new NSC was establishing ‘hot-lines’ with six countries. With these reforms it is anticipated that the US\$ 110 billion domestic security budget will appreciably increase.

Far reaching and major military reform measures were approved by the Third Plenum. In an entire separate section on military reform and modernization, interesting was the mention of the need for “building a line of people’s troops that heed the Party’s command”. Also, the Plenum, while referring to the need to strengthen and perfect military strategies and build modern military force systems, referred to “prominent contradictions and problems”.

Among the new military reforms proposed are the streamlining of personnel and reorganization of military leadership structures including at the level of the Military Commission, General Headquarters and all services. It said that Joint Operations outfits and

Among the new military reforms proposed are the streamlining of personnel and reorganization of military leadership structures including at the level of the Military Commission, General Headquarters and all services. It said that Joint Operations outfits and Joint Theatre Operations Command Systems would be set up under the Military Commission along with “new type combat units”.

Joint Theatre Operations Command Systems would be set up under the Military Commission along with “new type combat units”. The implication is that the Military Regions are likely to be replaced by Theatre Commands on the US pattern. The “new type combat units” could refer to formations integral to the Theatre Commands which are highly mobile, self-contained, cyber warfare-capable troops well-armed with advanced, lethal weaponry. There have been indicative hints in China’s military newspapers and magazines for some years now that both these are under consideration.

The Plenum Decision called for continuing joint operations training in the armed forces and accelerated establishment of integrated ‘informatisation commands’. Improvement and streamlining of PLA Logistics is to receive special attention together with national defence science and technology research and the research and development of advanced armaments. Reforms approved by the Plenum clearly indicated that the PLA, especially the ground forces, will be subjected to a further downsizing in personnel strength—particularly of non-combatants—and that the role, strength and budgets of the PLA Air Force (PLAAF), PLA Navy (PLAN) and Second Artillery will be enhanced. There will be impetus on regularizing the rank of NCOs and policies for the welfare and rehabilitation of veterans. There is focus also on improving the calibre of recruits and training in military schools and academies.

The reforms suggest that more officers from the PLAAF, PLAN and Second Artillery officers can be expected to be deployed in the General Staff Department (GSD), General Logistics

Department (GLD) and General Armaments Department (GAD) to improve Integrated Joint Operations, facilitate coordination in integrated logistics, and promote development of advanced weaponry specific to these three services.

Indication that work to implement the reforms approved at the Third Plenum had commenced was evident in the article written by General Xu Qiliang, former PLAAF Commander and presently Vice Chairman of the Central Military Commission (CMC) in the People's Daily on Nov 22. Confirming that more importance would be given to the PLAN, PLAAF and Second Artillery, he said they would be strengthened and their role enhanced and that non-combatant units and personnel would be reduced. Reports circulating in military circles in Beijing over the past two years have mentioned plans to reduce PLA strength by 800,000 personnel.

Steps to implement some of the reforms approved at the Third Plenum have already commenced in the economic sector and the PLA. The Party too has initiated action. Interesting in this context is an 8-point directive on cadre evaluation policies issued on December 6, 2013, by the powerful CCP CC Organisation Department to provincial authorities. This instructs provincial authorities not to rely simply on economic development statistics for promotion purposes; warns against political "show" projects undertaken by cadres to raise their profiles; and asks for more comprehensive evaluation of local cadres, taking into consideration the longer-term cost-benefit analysis of their performance.

Nevertheless, the CCP leadership under Xi Jinping faces numerous tough challenges. In addition to the economic difficulties which observers have underscored, the seemingly intractable restiveness of the country's minority nationalities and widespread popular discontent accentuated by the 400 million active 'netizens', pose a serious challenge. This is exacerbated by the political divisions that are beginning to

surface. The publicised announcement last month of a 'political' party, with the officially discredited and ousted Politburo member Bo Xilai as its patron, is an example. They will expect the support of the nearly 30 million Cultural Revolution-vintage Party cadres. Additionally, the powerful group of 'Red Descendants', or children of veteran CCP leaders, who influence leadership decisions are divided on the future course that the Party should take and have begun to voice their differences.

The Third Plenum of the 18th CCP CC is nonetheless a major attempt at boosting China's economy and lifting the country up to the ranks of the world's advanced nations by 2020. The continuing emphasis on rapid modernization of the PLA and its technological capabilities with particular attention to enhancing the role and capabilities of the PLA Navy, PLA Air Force and Second Artillery, or strategic strike force, is intended to enable realisation of 'China's Dream' and add muscle to its diplomacy. This is of direct relevance to China's neighbours. The important objective is to ensure that the Chinese Communist Party retains its legitimacy and position as the country's unchallenged, solitary ruling political party when it celebrates its hundredth anniversary in 2021.

